

Judge Posner argues that the evil of ESOPs is their lack of diversification. Certainly portfolio theory teaches that diversification is an important tool to reduce investment risk.

But ESOP participants are not portfolio managers. Employees generally can only sell their labor to one business. If they also are an investor in that business through an ESOP, does that present an unacceptable level of risk?

Certainly there is always a chance that the investment in any business will not be a good one. But when a person has a stake in a business, whether it is a family farm, a medical practice, a corner grocery or a factory, they are more attentive and more likely to work harder.

However, Judge Posner argues that the principle does not work with an ESOP. He says that an employee "has no incentive to work harder just because he owns stock in his employer, since his efforts, unless he is a senior executive, are unlikely to move the price of the stock." Really? So why to citizens vote? Their vote is unlikely to determine the outcome of the election. Why does a soldier fight? His actions will probably not determine the winner of the battle. Obviously, they do it because they know that when they act along with others, they can change the result. One doesn't need to look very hard to find thousands of ESOP employee-owners who know that their actions, combined with their co-workers, can and will produce great results.

That is the key issue. Motivated employees are better employees, and make a better business. Can they overcome any obstacle? Of course not. But this motivation is the reason that ESOP companies tend to be more successful, and therefore less risky than other companies.

Should employees have all of their eggs in one basket? No. They continue to need to add to their assets by saving, and they will rely on Social Security for some of their retirement income. They should also take advantage of their right to diversify their ESOP benefit when it is available.

For those who find this stake in their future too risky, there are thousands of other non-ESOP companies who need workers. But it makes no sense to use avoidance of risk as a reason to deny employees the opportunity to build real wealth through their efforts at an ESOP company.

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